EXECUTIVE SUMMARY

In November 2016, approximately **77 percent** of voters in the City of Los Angeles approved Proposition HHH. The ballot measure authorized the City to issue up to **$1.2 billion** in general obligation bonds to acquire or build supportive/affordable housing and facilities such as interim shelters, restrooms, showers, storage, and service centers.[1] **The resounding approval of the ballot measure – and significant amount of funding – was an unequivocal commitment by Angelenos to tackle homelessness.**

Our previous review of Proposition HHH found that development costs for supportive housing were high (**median cost of $531,000 per unit**) and estimated project timelines (**three to six years from conceptualization to occupancy**) did not meet the urgency of the growing homeless crisis.[2] We identified several issues – some systemic and some within the City's control – which were adversely affecting project costs and timelines.

Because most of the supportive housing projects funded through Proposition HHH were in the early planning stages during our previous review, we recommended the following strategies.

- Evaluate the feasibility of reallocating some Proposition HHH funds that have been conditionally awarded – especially funds committed to expensive projects with outlier development costs. This may free up funding for projects with lower per-unit costs or for shelters and facilities.
- Support the Proposition HHH Concierge's efforts to streamline permitting and other processes to ensure that projects currently in the development pipeline are completed as quickly as possible.

These recommendations remain relevant. Nearly four years have passed since voters approved Proposition HHH and the need to adjust course – or pivot to a different direction – continues to grow. Despite the City's efforts, the current trajectory of the program falls significantly short of our increasing and immediate needs.

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[1] The ballot measure specified that at least **80 percent** of the funds must be used for supportive housing and facilities, and up to **20 percent** can be used to develop affordable (i.e., income-restricted) units. Affordable units are intended to prevent low-income residents from falling into homelessness.

[2] Proposition HHH requires the Controller's Office to perform audits for every year in which bonds are outstanding or any bond proceeds remain unspent. See Appendix A for a copy of the FY2019 financial audit that was conducted by Macias, Gini & O'Connell on behalf of the Controller's Office. **The financial audit did not identify any significant irregularities or improprieties related to Proposition HHH.**

- Only **two** housing projects have been completed with a total of **106** housing units. There are a total of **7,322** supportive/affordable housing units currently in the development pipeline – approximately **75 percent** of these have not yet begun construction.
- Based on the City's current projections – which may not fully reflect pandemic-related delays – only **20 percent** of total units in the HHH development pipeline will not be completed by 2022. Approximately **43 percent** of total units will be completed by 2023.
- Approximately **27 percent** of units in construction exceed **$600,000** per unit. Projects in pre-development show similar estimated costs, and will be subject to market forces when developers solicit bids for construction contracts.

Meanwhile, the number of unhoused Angelenos grew considerably since our last report. The point-in-time count conducted in January 2020 identified **41,290** individuals experiencing homelessness in Los Angeles – an increase of **14 percent** from the previous year. Nearly **29,000** of these individuals were unsheltered and fighting to survive in tents, encampments, vehicles, and other locations. Researchers estimate that more than **1,000** individuals experiencing homelessness died from "sudden, violent, or unusual" causes in Los Angeles County in 2019.

This grim reality is further compounded by the fact that the annual count was performed before the devastation caused by COVID-19. Since then, hundreds of thousands of residents have lost their jobs and households that were already struggling to make ends meet have had their wages reduced. The ongoing uncertainty about the economic recovery, additional federal assistance, and tenant protections are a dangerous combination for tens of thousands of residents facing housing insecurity.

The pandemic has been especially dangerous for Black and Latino residents, many of whom work in lower-wage jobs that cannot be done from home. Studies show that these Angelenos are twice as likely to die from COVID-19 compared to white residents. Trauma and lost wages resulting from the sudden death or illness of a loved one can destabilize households and place them at a higher risk for falling into homelessness – where Black residents are already disproportionately represented.

Altogether, this means increased risk of homelessness – and the associated threats to personal health and safety – for many of our most vulnerable residents. The City, County, and State have taken steps in recent months to strengthen the safety net, but the timing and outcomes associated with those efforts is unclear. The convergence of these generational crises makes it even more critical to get HHH-funded supportive housing units, interim shelters, and other facilities built as quickly and inexpensively possible.

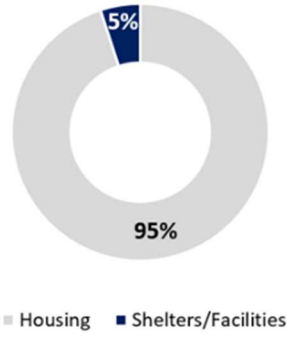
How much HHH funds have been committed and spent?

As of August 2020, the City has committed approximately **$1.17 billion** in Proposition HHH funds, which leaves approximately **$30 million** in remaining funds <CONFIRM> based on the maximum amount authorized by the ballot measure. **But the funding commitments do not become contractual obligations until the City and housing developers formally execute loan agreements (i.e., contracts).**

To reach that stage, developers who receive HHH funding commitments – which do not fully cover the cost of the project – are provided up to two years to close the remaining funding gap and obtain the necessary approvals (e.g., land use entitlements and building permits) to move forward. Developers who successfully navigate this process (known as "pre-development") finalize their loans with the City and begin construction. **Actual spending of HHH bond proceeds does not occur until all of these steps have been completed, and developers periodically submit requests for payment to the City.**

To date, the City has formally awarded approximately **$268 million** <INSERT UPDATED $> in loans for supportive housing and spent approximately **$160 million** on both housing and shelters/facilities projects.

By a significant margin, the committed funds are intended to fund development of supportive housing rather than shelters and facilities for individuals experiencing homelessness. This approach is driven by the City's steadfast commitment to the supportive housing model, which is designed to provide a combination of housing and services to help individuals who have disabling conditions and have experienced homelessness for an extended period of time (i.e., "chronic homelessness").

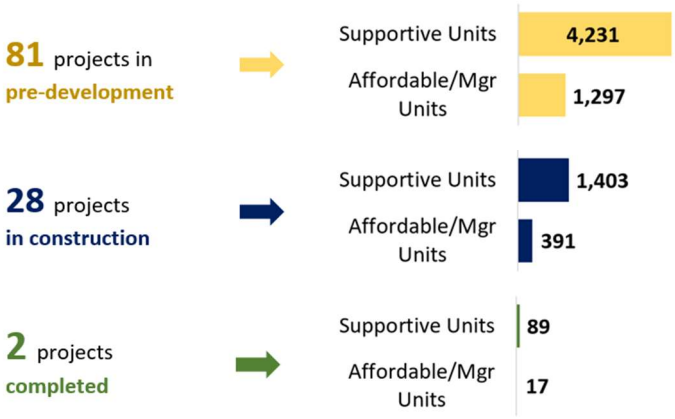


According to the annual point-in-time count conducted in January 2020, there were an estimated <INSERT #> individuals in Los Angeles who met these criteria.

What is the status of HHH supportive housing?

Since our last report, the first HHH-funded projects were completed (**106** total units) and **11** projects closed their loans and moved into the construction phase. Excluding potential units developed from the Proposition HHH Housing Challenge (discussed below), there are currently **5,634** supportive units and **1,688** affordable/manager units in the pipeline. **But a significant**

share of the projects are still in the process of securing additional funding and approvals (i.e., pre-development).



Many projects were experiencing delays before COVID-19, but the pandemic placed additional strain and uncertainty on an already complex framework held together by the City, County, State, federal government, developers, lenders, and private investors. The full impact is unclear, but important project components such as funding, costs, and timelines are being affected.

On average, **$9 million** has been set aside for each project currently in pre-development. The economic volatility caused by the pandemic increases the likelihood that some projects in pre-development do not proceed to the construction phase. **If this occurs, the City's Housing and Community Investment Department (HCIDLA) plans to solicit proposals for new supportive housing projects using funds that were intended for unsuccessful projects.**

The City also set aside **$120 million** in Proposition HHH funding with the aim of developing **975** supportive housing units through the **HHH Housing Challenge**. These efforts were intended to identify different housing typologies or innovative financial models to reduce project costs and development timelines. The projects are currently in the pre-development phase.

Preliminary estimates show lower costs (**$XXX,XXX** per unit) and shorter development timelines – which are not included in the analyses throughout this report – but several of the developers are now pursuing federal tax credits due to COVID-related delays on State funding. **This shift is significant and likely means added time and costs as the projects move toward construction.**

How much do HHH supportive housing projects cost?

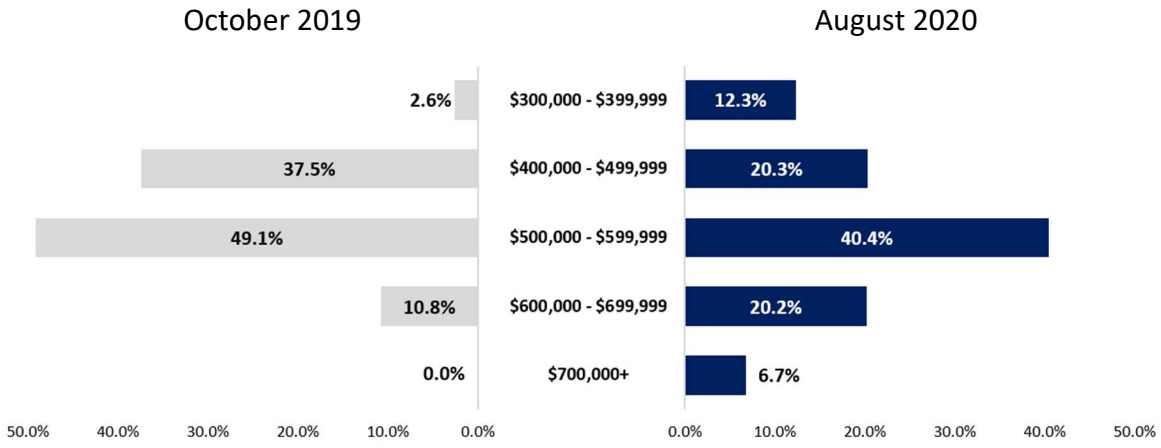
High costs associated with development of supportive housing are not unique to Los Angeles. Jurisdictions across the country face similar challenges due to the overall complexity of the financing process and factors such as prevailing wage, construction costs, and land use issues. For example, <INSERT BENCHMARK>. **But issue in Los Angeles is especially acute given the magnitude of our housing and homeless crises.**

Proposition HHH funds make up approximately **30 percent** of a project's total development costs. The maximum allowable Proposition HHH subsidy for supportive housing was **$140,000** per unit during the most recent funding cycle and **$220,000** per unit for previous funding cycles.

The remaining funding comes from a combination of private sources and other public entities such as the federal government, State of California, and LA County. **Although the City does not bear the entire cost of these projects, it should seek to minimize the burden on the larger funding system for supportive and income-restricted housing projects.**

Status (# of projects)	Average HHH award	Average total development cost	Average cost per unit
Completed (2)	**$8,872,572**	**$27,997,327**	**$528,251**
In construction (28)	**$8,945,285**	**$33,900,132**	**$529,099**
Pre-development (81)	**$8,974,001**	**$36,634,903**	**$536,799**

A closer look at the distribution of per-unit costs for projects in construction shows that the overall share of units with costs above **$600,000** has more than doubled from **10.8** to nearly **27 percent.**[4] At the other end of the spectrum, the percentage of units below **$400,000** grew considerably.



[4] This analysis is not a one-for-one comparison – the August 2020 data includes **11** additional projects and the outlier projects may simply reflect construction costs at the time those contracts were signed. Regardless, the data snapshot provides an overview of the **28** projects currently in construction.

Construction costs typically represent more than half of each project's development cost and construction contracts are not formally executed until funds are assembled, land use issues are resolved, and Proposition HHH loans are closed. As a result, the construction costs associated with each project are subject to market forces when contracts are competitively bid.

Currently, **23 percent** of units in pre-development are estimated to exceed **$600,000**. The ongoing volatility caused by the pandemic makes it unclear how much these projects will cost by the time they move toward construction.

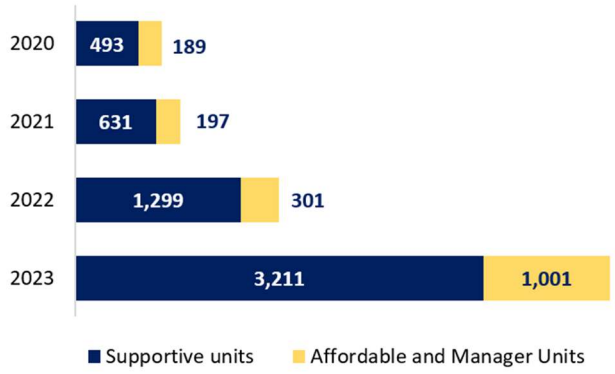
When will supportive housing developed through HHH be available?

An ongoing challenge for the City – and other jurisdictions – is the inherent complexity and length of time required to successfully finance projects. Proposition HHH funds (in the form of loans) are intended to help developers get projects off the ground and compete for other sources of funding, often federal tax credits from the Low-Income Housing Tax Credit (LIHTC). The City provides developers with a two-year window to secure the funding necessary to make projects financially viable.

The upside of this partial-funding approach is that it helps the City spread HHH funding across a larger pool of projects. The downside is that each additional layer of funding comes with its own set of policy priorities, application process, award timeline, and costs. <INSERT POTENTIAL STREAMLINING FROM AB 434>

During our last review, we learned that supportive housing projects typically take **three to six years** to complete (from conceptualization to occupancy). The full-scale of COVID-19's impact on HHH-funded projects is unclear – but it will almost certainly add to what is already a lengthy development process.

Projects currently under construction must adjust to social distancing guidelines and projects in pre-development must navigate added uncertainty in terms of project funding. **According to the City's estimates – which may not fully-reflect pandemic related uncertainty – Angelenos in need of supportive housing will need to wait years before the majority of units are completed.**



What shelters and facilities projects have been funded through HHH?

9 Projects in Pre-development

8 Projects in Construction

7 Completed Projects

The City has funded a total of **24** projects using approximately **$58 million** in Proposition HHH funds. The overall limited scope of this effort was driven by the City's decision to prioritize development of supportive housing.

Eligible projects included rehabilitation/expansion of existing sites or acquisition/construction of new sites. In addition, projects that enhanced existing facilities to improve service delivery or continue operations – such as retrofits to make buildings compliant with the Americans with Disabilities Act (ADA) – were also eligible. Projects funded by the City include a mix of domestic violence shelters, transitional housing service centers, navigation centers, and health clinics.

Most of the projects (**18 of 24**) were renovations to existing shelters and facilities rather than new construction. When completed, these projects will provide <INSERT #> new shelter beds.

What should the City do?

The City is in the midst of overlapping crises that disproportionately impact our most vulnerable residents. Recent efforts to expand shelter options are a step in the right direction. <INSERT PROJECT HOMEKEY AND COURT ORDER> Even if these initiatives meet their goals in a timely manner, there will still be thousands of unsheltered Angelenos.

These dire circumstances provide an opportunity to reflect on decisions that were made years ago and evaluate alternate paths that may still be viable. Many of the underlying issues contributing to the slow progress and high costs associated with supportive housing developed through Proposition HHH are inherently difficult to undo overnight. **At the current trajectory, less than half of the 7,322 housing units being developed using HHH funds will be completed by 2023 – at the earliest.**

The City's current plan is to use the remaining HHH funds (**$30 million**) and any funds (**$9 million** per project) returned from unsuccessful projects to start the process anew and solicit proposals for new supportive housing projects – **which would take several years to complete.**

The issue is not whether the City should invest in supportive housing using HHH funds – it should. The issue is whether the City should almost exclusively pursue an approach that costs approximately **$530,000** per unit and takes up to **six** years to complete when there are approximately **30,000** people suffering in the streets. Instead, the City should find other ways to

use any remaining/returned HHH funds to deliver faster and less expensive projects that better balance our long-term goals with our short-term needs.

- **Focus on shelters and facilities** – Interim shelters are critical to helping get vulnerable people off the streets until other housing options become available. Accessible facilities are also essential to helping people living on the streets meet their basic health, hygiene, sanitation, and storage needs. Unfortunately, neither of these have been prioritized or funded at a scale that matches our needs.

  State law prevents <CONFIRM> the City from using Proposition HHH bond proceeds on things like equipment, tents or other non-permanent structures, or mobile hygiene facilities. But the City has full authority to fully fund the construction of shelters and facilities on City-owned property, or acquire property and initiate projects.

- **Prioritize acquisition and adaptive reuse opportunities –** Another approach would be to pursue strategies that minimize the impact of issues such as land use challenges, the high cost of new construction, and systemic issues related to project financing. Different approaches – such as acquisition or adaptive reuse of existing buildings using Proposition HHH funds – may help reduce costs and timelines.

  Efforts by the State and County (via LAHSA) to acquire hotels/motels that can be converted into interim shelters or supportive housing are a promising development. Although the retrofits needed to make these buildings suitable for supportive housing will add time and money, the locations can be temporarily used as shelters. A potential option for the City would be to contribute available Proposition HHH funding to assist with these efforts.

  The pandemic has also raised larger questions about the future of commercial space such as office space and big-box retail stores. Although it is too early to determine whether any downward market trends – and the costs associated with potential renovations – make these projects financially viable, the City should work with subject matter experts to identify opportunities.

Shifting course through these strategies may increase the City's ability to deliver supportive housing, interim shelter, and facilities at a lower cost and faster rate. More broadly, it would help re-align a generational voter investment with our emerging and urgent needs.

BACKGROUND

Our October 2019 review of Proposition HHH provided a high-level assessment of the City's progress in using up to **$1.2 billion** in bond proceeds to spur the development of supportive housing, shelters, and facilities to help Angelenos experiencing homelessness.[5] We found high development costs (**median cost of $531,000 per unit**) and lengthy project timelines (**three to six years from conceptualization to occupancy**) that did not meet the urgency of the growing homeless crisis.

Because many projects were in the early planning stages of development, we sought to identify opportunities for the City to refine its approach – or pivot to a different strategy – before it was too late. We recommended that City policymakers consider the following actions to reduce costs and shorten timelines.

- Evaluate the feasibility of reallocating some Proposition HHH funds that have been conditionally awarded – especially funds committed to expensive projects with outlier development costs. This may free up funding for projects with lower per-unit costs or for shelters and facilities.
- Support the Proposition HHH Concierge's efforts to streamline permitting and other processes to ensure that projects currently in the development pipeline are completed as quickly as possible.

These recommendations remain relevant – the number of unhoused residents grew significantly since we issued our last report. **The point-in-time count led by the Los Angeles Homeless Services Authority (LAHSA) identified 41,290 individuals experiencing homelessness in January 2020, an increase of 14 percent from the previous year.**

Unfortunately, this data likely reflects a best-case scenario – the annual count was performed before the economic devastation caused by COVID-19. As of <INSERT DATE>, more than **250,000** <INSERT UPDATED #> Los Angeles residents lost their jobs and many remained employed but had their wages reduced. The economic downturn is especially alarming

[5] Proposition HHH requires the Controller's Office to perform audits for every year in which bonds are outstanding or any bond proceeds remain unspent. See Appendix A for a copy of the financial audit that was conducted by Macias, Gini & O'Connell on behalf of the Controller's Office. The scope of the financial audit was FY2019 (which was the second year that bond proceeds from Proposition HHH were available). **The financial audit did not identify any significant irregularities or improprieties related to Proposition HHH.**

considering the large number of residents struggling with high housing costs even before the onset of the pandemic.

The City implemented measures such as a rent lottery for **50,000** low-income households, rent freezes for units covered by the Rent Stabilization Ordinance (RSO), and a moratorium on evictions for renters who can demonstrate that they are unable to pay rent as a direct result of COVID-19. **But these protections are limited and temporary – the threat of widespread displacement or homelessness remains.** Researchers at UCLA estimate that – without additional action – tens of thousands of households in LA County are at risk of falling into homelessness as a result of post-pandemic evictions.[6]

The convergence of these generational crises further emphasizes the importance of getting supportive housing units, shelters, and support facilities built as quickly and inexpensively possible. The full impact of COVID-19 on Proposition HHH-funded projects remains unclear, but each of the following components will be affected.

- **Project funding –** Assembling funding from multiple sources to make projects financially viable is an inherently complex task, even before COVID-19. The ongoing economic volatility creates uncertainty for private lenders/investors, thereby increasing the risk that projects do not move forward.

  A critical part of making projects financially viable are federal rental subsidies in the form of Section 8 housing vouchers. In 2017, the Housing Authority of the City of Los Angeles (HACLA) committed to providing vouchers for up to **5,000** units developed through Proposition HHH and recently committed an additional **1,000** vouchers. But there are currently not enough vouchers to fund all of the units in the development pipeline. <INSERT NUMBER> projects/units currently in the pre-development phase will be unable to secure financing until these issues are resolved.

  Proposition HHH supportive housing projects also require operating subsidies so that service providers can provide tenants with resources such as case management services and medical, mental health, and substance use treatment services. The County committed to funding these services – primarily through sales tax revenue generated from Measure H – but revenue projections remain uncertain due to the economic impact of the pandemic.

[6] Blasi, G. (2020). UD Day: Impending Evictions and Homelessness in Los Angeles. *UCLA: Institute on Inequality and Democracy*. Retrieved from https://escholarship.org/uc/item/2gz6c8cv.

- **Construction costs** – A regional slowdown in market-rate multifamily housing construction may drive down labor costs for Proposition HHH-funded projects due to increased competition among general contractors and subcontractors. However, potential cost savings may be offset by increased costs for materials due to disruptions to international supply chains.

- **Development timelines – <INFO re: MAYOR'S TOLLING ORDER>**.

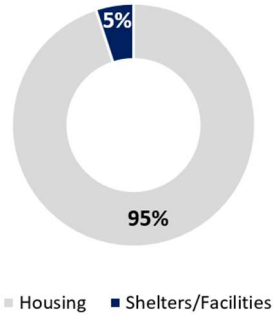
  Construction of multifamily buildings requires large numbers of workers in tight spaces. Shortly after the public health emergency was declared, the Department of Building and Safety (LADBS) issued social distancing requirements at construction sites. These changes are essential to protecting worker safety, but will likely slow down construction.

As of August 2020, no Proposition HHH projects have been cancelled as a direct result of COVID-19. But the uncertainty likely means additional delays, higher costs, and greater risk of unsuccessful projects. **The City's Housing and Community Investment Department (HCIDLA) plans to reallocate funds from unsuccessful projects by initiating a call for developers to submit proposals for development of new supportive housing.** The average Proposition HHH funding commitment to each project in the development pipeline is nearly **$9 million**.

This report provides a status update on progress made on Proposition HHH-funded projects and explores ways to use Proposition HHH funds to deliver assistance to the tens of thousands of homeless Angelenos suffering through these unprecedented crises. It is important to place the City's efforts with Proposition HHH into broader context – other ongoing initiatives are discussed throughout the report.

PROPOSITION HHH STATUS (AUGUST 2020)

The City reports that approximately **$1.17 billion** in Proposition HHH funds – nearly the maximum amount approved by voters – has been committed as of August 2020.[7] **By a significant margin, the City is directing funding to the development of supportive/affordable housing rather than shelters or facilities such as restrooms, showers,**



[7] Proposition HHH-related data for this report was obtained directly from HCIDLA, the City's Proposition HHH dashboard (https://hcidla2.lacity.org/hhh-progress), City Council Files, and recurring reports submitted to the Proposition HHH Citizens and Administrative Oversight Committees.

storage, clinics, or service centers.[8] The City decided to prioritize development of housing rather than facilities because it was consistent with the intent of the ballot measure and presented a longer term solution for chronically homeless individuals.

Proposition HHH funding commitments for development of supportive housing are conditional and are typically made early in the development process. **Actual disbursement of bond proceeds does not occur until formal loan agreements (i.e., contracts) are executed and housing projects are ready to begin construction.** HCIDLA is tasked with reviewing invoices submitted by developers and approving payments.

The City's Office of the Chief Administrative Officer (CAO) oversees the development of shelters and facilities using Proposition HHH funds. Like the process described above, funds are made available to loans to developers of facilities projects and paid on a reimbursement basis as projects are developed.

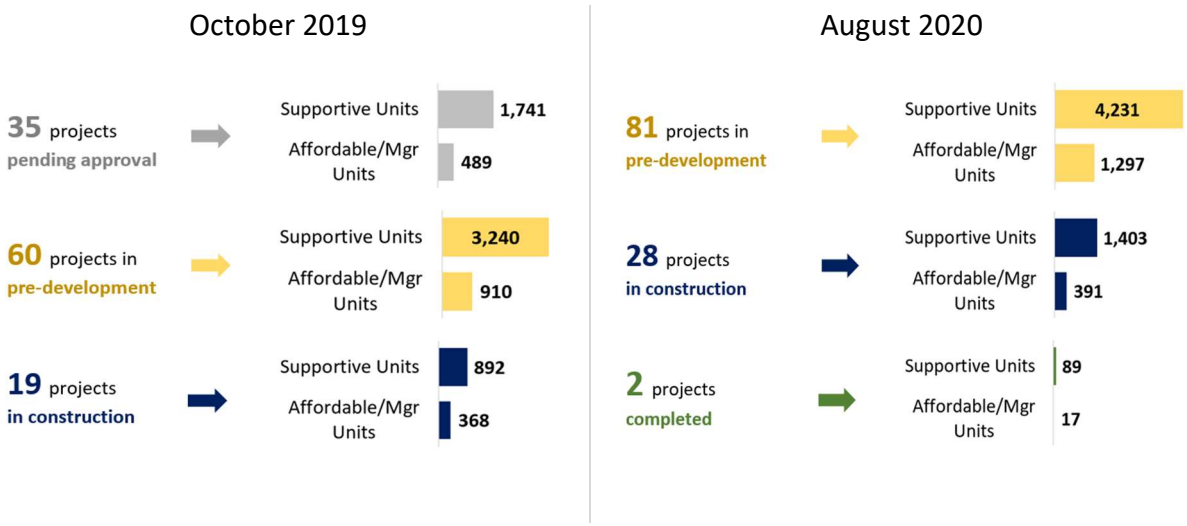
To date, the City has issued two Proposition HHH bonds with a combined value of almost **$363 million,** formally awarded approximately **$268 million** <INSERT UPDATED $> in loans for supportive housing projects, and spent approximately **$160 million** for housing and facilities projects. The City has not issued any Proposition HHH bonds since July 2018 but has tentative plans to issue a new bond sometime in 2021 (assuming the bond proceeds on hand continue to be spent at a similar rate).

I. HHH Supportive Housing Development Pipeline

Since our last report, the first HHH-funded projects were completed and 11 projects closed their loans and moved into the construction phase. Three projects did not move forward – one did not receive Council approval, a developer elected to discontinue a project, and another project became ineligible for HHH funding because the developer no longer had legal authority to build in the proposed location.

Excluding potential units from the Proposition HHH Housing Challenge (discussed below), there are currently **5,634** supportive units and **1,688** affordable/manager units in the development pipeline. **However, 75 percent of the units have not begun construction and are still in various stages of the pre-development (i.e., planning) process.**

[8] The ballot measure specified that at least **80 percent** of the funds must be used for supportive housing and facilities, and up to **20 percent** can be used to develop affordable (i.e., income-restricted) units.



An ongoing challenge for the City – and other jurisdictions – is the inherent complexity and length of time required to successfully finance these types of projects. Proposition HHH funds (in the form of loans) are typically "first-in" and are designed to help developers get projects off the ground and compete for other sources of funding, often in the form of federal tax credits from the Low-Income Housing Tax Credit (LIHTC) program. While the City could elect to bypass the leveraging model by fully funding projects, it would result in less units being built.

The City provides developers with a two-year window to secure the funding necessary to make projects financially viable. Each additional layer of funding comes with its own set of policy priorities, application process, award timeline, and costs. <INSERT # OF FUNDING SOURCES>.

Proposition HHH Housing Challenge Program

The City set aside **$120 million** in HHH funds with the goal of identifying innovative housing typologies or non-traditional financial models (e.g., alternatives to federal tax credits) that can be used to reduce development costs and complete projects within two years of executing a funding contract. Developers did not have to demonstrate site control before applying for funds through the HHH Housing Challenge. The City aims to facilitate the development of approximately **1,000** units through this process.

The first group of HHH Housing Challenge projects were approved by the City Council in May 2020 and the second group will be reviewed by the City Council in August 2020. In total, these projects are expected to receive approximately **$84 million** in Proposition HHH funding commitments for **705** supportive housing units. The next phase in this process is for the City to negotiate and finalize its funding commitments.

The projects include promising approaches such as a financing plan tailored for modular construction and use of alternate structural materials. Preliminary data shows lower costs

(**$XXX,XXX** per unit) and shorter development timelines but several of the developers are now pursuing federal tax credits due to COVID-related delays on State funding. **This shift is significant and likely means added time and costs as the projects move toward construction.** Due to the evolving nature of these projects, they are not incorporated into the analyses throughout this report.

II. Cost of Proposition HHH Supportive Housing

Responding to homelessness requires developing policy and program responses tailored around individuals' needs. Supportive housing is designed to provide chronically homeless individuals with subsidized housing combined with on-site services such as mental and physical health services, education and job training, and drug and alcohol treatment. Buildings developed through Proposition HHH have dedicated space for these services – which typically consists of offices and meeting rooms – that contribute to overall project costs.

All supportive and affordable units funded through Proposition HHH are subject to a 55-year affordability covenant to ensure that they are restricted to the target population. Approximately **51 percent** of the units being developed using HHH funds are compact studios (typically < 500 sq. feet) and **32 percent** are 1-bedroom apartments – all units must have a kitchen and full bathroom to function as supportive housing.

Our previous report identified several factors (e.g., funding complexity, regulatory hurdles, and prevailing wage requirements) which contributed to high development costs. Proposition HHH loans typically make up approximately **30 percent** of each project's total budget. The maximum allowable Proposition HHH subsidy for supportive housing was **$140,000** per unit during the most recent funding cycle and **$220,000** per unit for previous funding cycles.

The remaining funding comes from a combination of private sources and other sources of taxpayer funds such as federal government, State of California, and LA County. **Although the City does not bear the entire cost of these projects, it should seek to further minimize development costs and – to the greatest extent possible – avoid draining the overall pool of funds available for supportive and income-restricted housing projects.**

Cost of completed HHH supportive housing projects

Since we issued our last report, the first two HHH-funded projects were completed and will provide homes and supportive services to a mix of formerly homeless individuals, seniors, families, transition age youth, and individuals with mental health conditions.

88th and Vermont

Photo Credit: HCIDLA

HHH funds	**$9,680,000**
Total development cost	**$34,069,046**
Cost per unit	**$549,801**
Total Units	**62**
Supportive Units	**46**
Unit mix	**12** studios, **20** 1BR, **24** 2BR, **6** 3BR

Casa del Sol

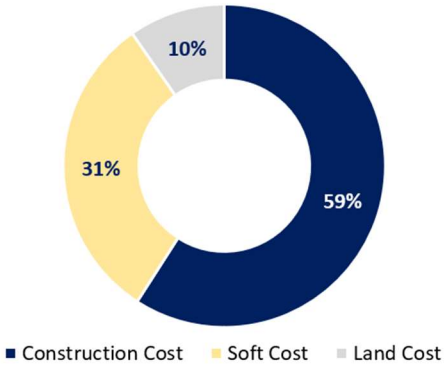
Photo Credit: HCIDLA

HHH funds	**$8,065,143**
Total development cost	**$21,925,608**
Cost per unit	**$498,309**
Total Units	**44**
Supportive Units	**43**
Unit mix	**17** studios, **26** 1BR, **1** 2BR

It is important to note that these projects (and seven others) were not initiated after the passage of Proposition HHH in November 2016. Instead, they were already in HCIDLA's development pipeline and HHH funding was used at the latter stages of pre-development – rather than the first-in approach – to close funding gaps and move the projects toward construction. **As a result, the costs and timelines associated with these projects may not be representative of other projects in the development pipeline.**

To better understand how costs were distributed for 88th and Vermont and Casa del Sol, we analyzed project budgets submitted to HCIDLA during the pre-development phase and organized the data into the categories outlined below. These budgets evolve as projects move toward completion and provide general context about the various cost drivers. As shown in the chart, construction costs accounted for nearly **60 percent** of total development costs.

Budget Breakdown for 88th and Vermont and Casa del Sol



Category	% of TDC
New Construction / Rehab	59.1%
Land Cost / Acquisition	9.7%
Developer Costs	8.6%
Other Project Costs	5.9%
Construction Interest and Fees	5.4%
Contingency Costs	5.1%
Architectural Costs	2.9%
Reserve Costs	1.6%
Survey and Engineering	0.9%
Legal Fees	0.6%
Permanent Financing Costs	0.1%
	100%

In our previous report, we found that projects were incurring soft costs of approximately **35 percent** for non-construction activities such as fees, insurance, and financing costs. HCIDLA explained that the complex and lengthy process of assembling funding from multiple sources contributes to these costs, and that the soft cost ratio was consistent with research published by the United States Governmental Accountability Office (GAO) in 2018. The soft cost ratio for the two completed projects listed above (**31 percent**) was consistent with this level.

Cost of HHH supportive housing projects in construction

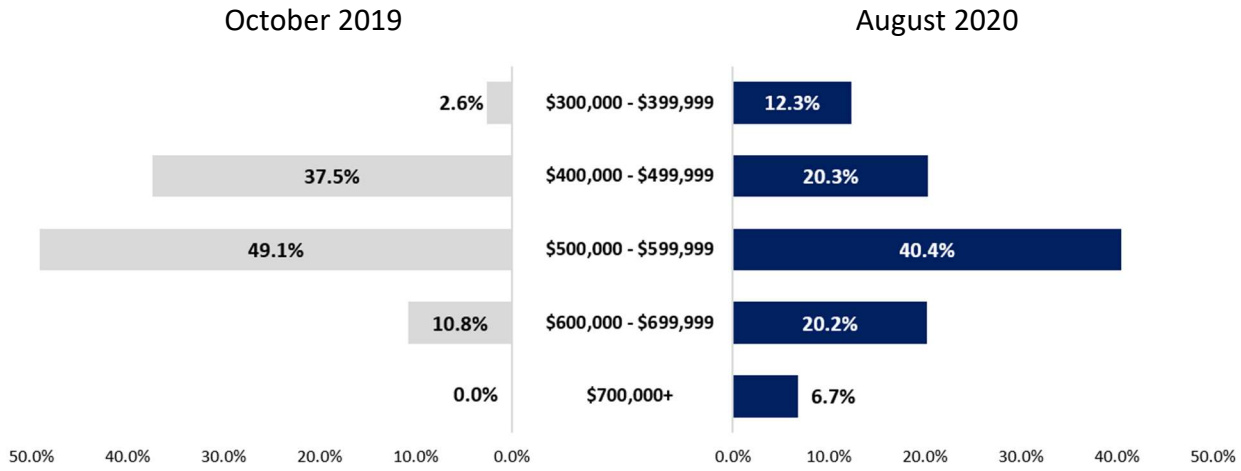
The average HHH contribution for projects in construction is approximately **$8.9 million**. The aggregate data reported by HCIDLA shows that average per-unit development costs for projects in construction increased slightly, and outliers at both ends of the spectrum continued to separate themselves.

Cost of 28 HHH Supportive Housing Projects in Construction

October 2019			August 2020		
TOTAL DEVELOPMENT COST (TDC)			TOTAL DEVELOPMENT COST		
Lowest	Average	Highest	Lowest	Average	Highest
$11,440,379	$34,607,610	$55,050,829	$13,036,552	$33,900,132	$56,064,860
PER-UNIT COST			PER-UNIT COST		
Lowest	Average	Highest	Lowest	Average	Highest
$346,678	$521,861	$690,692	$309,901	$529,099	$739,377

A closer look at the distribution of per-unit costs shows that the overall share of units with development costs above **$600,000** has more than doubled from **10.8** to nearly **27 percent**. In addition, the share of units in the lowest tier ($300,000 - $399,000) increased considerably.

Per Unit Cost Distribution of 28 Projects in Construction

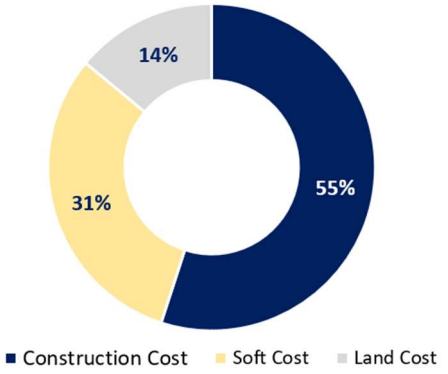


It should be noted that the analysis is not a one-for-one comparison – the August 2020 data includes eleven additional projects and the outlier costs may simply reflect construction market dynamics at the time those contracts were signed. **Regardless, the data snapshot provides additional context about the current project portfolio.**

There are myriad factors that affect development costs (e.g., location or steel vs. wood-frame construction), but achieving economies of scale is a generally accepted principle in any construction project. Projects with development costs below **$500,000** have an average of **73** units, whereas projects with development costs above **$600,000** have an average of **54** units. **While the limited sample size and number of variables makes it difficult to draw larger conclusions, the difference in costs raises questions about ways the City can prioritize funding larger projects.**

The cost breakdown of projects in construction was consistent with the completed projects, with slightly higher costs associated with land acquisition.

Budget Breakdown for 28 HHH Supportive Housing Projects in Construction



Category	% of TDC
New Construction / Rehab	54.6%
Land Cost / Acquisition	13.8%
Developer Costs	8.8%
Construction Interest and Fees	6.2%
Other Project Costs	5.2%
Contingency Costs	5.0%
Architectural Costs	2.5%
Reserve Costs	1.7%
Survey and Engineering	0.8%
Legal Fees	0.6%
Permanent Financing Costs	0.4%
Relocation Costs	0.3%
	100%

Cost of HHH supportive housing projects in pre-development

The average HHH contribution for projects in pre-development is approximately **$9 million**. **The cost of projects in pre-development represents an estimate at the time project proposals are submitted to HCIDLA – typically years before they begin construction.** After receiving a conditional letter of commitment, developers have two years to assemble funding, obtain land use approval, and navigate the City's permitting processes.

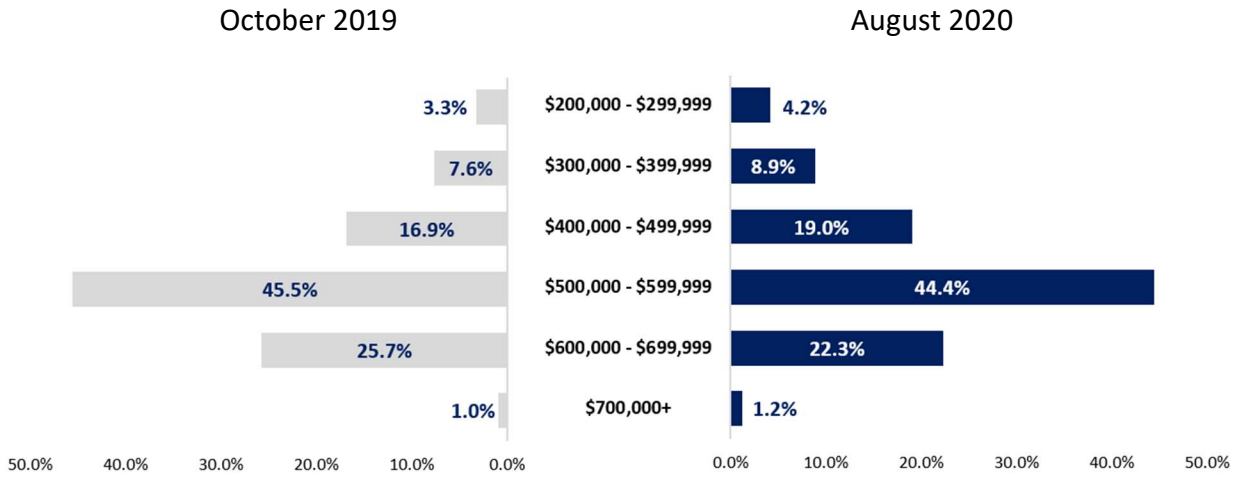
Construction contracts – which represent more than half of total project costs – are not formally executed until these and other steps are completed. **As a result, the estimates below are preliminary and will be subject to market forces when construction contracts are competitively bid.**

Cost of 81 HHH Supportive Housing Projects in Pre-Development

	October 2019			August 2020		
TOTAL DEVELOPMENT COST (TDC)	Lowest	Average	Highest	Lowest	Average	Highest
	$9,340,000	$34,069,389	$72,022,642	$9,453,715	$36,634,903	$76,496,899
PER-UNIT COST	Lowest	Average	Highest	Lowest	Average	Highest
	$228,908	$507,302	$701,072	$243,584	$536,799	$711,942

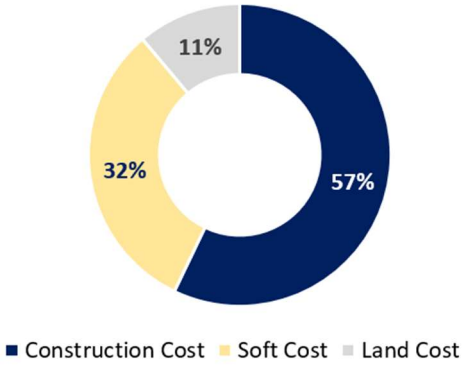
Of particular note is the lowest cost project (**$243,584** per unit) currently in pre-development – Vermont & Manchester. <INCLUDE DETAILS ABOUT PROJECT>.

Per Unit Cost Distribution of 81 Projects in Pre-Development



The cost distribution of projects in pre-development remained mostly unchanged during the nine months since our last report. However, it should be noted that many of these projects are experiencing COVID-related delays and incurring additional costs that may not yet be reflected in the data.

Budget Breakdown for 81 HHH Supportive Housing Projects in Pre-Development



Category	% of TDC
New Construction / Rehab	57.0%
Land Cost / Acquisition	11.1%
Developer Costs	9.2%
Construction Interest and Fees	5.9%
Other Project Costs	5.3%
Contingency Costs	4.4%
Architectural Costs	2.5%
Reserve Costs	1.7%
Survey and Engineering	0.9%
Predevelopment Interest / Holding Cost	0.8%
Legal Fees	0.5%
Permanent Financing Costs	0.5%
	100%

III. Estimated Project Completion Timelines

The full-scale of COVID-19's impact on HHH-funded projects is unclear – but it will almost certainly add to what is already a lengthy development process. Projects currently under construction must adjust to social distancing guidelines and projects in pre-development must navigate added uncertainty with their already complex financing arrangements. The data presented below likely does not reflect additional delays because of this volatility.

Even before the onset of the pandemic, the City granted extensions for **15** projects beyond the two-year window provided by the conditional funding commitment. The extensions ranged from **42** to **731** days and were requested due to challenges such as City permitting processes, tax credit application timelines, and a CEQA lawsuit. **Beyond taking longer to complete projects, delays will likely result in higher development costs in the form of interest on loans and holding costs on land.**

During our last review, we learned that supportive housing projects typically take **three to six years** to complete (from conceptualization to occupancy). We previously calculated the timeline by measuring the number of years from the date of the City's funding commitment to the estimated completion of construction. For this report we measured the length of time from the City's funding commitment to the estimated occupancy date.

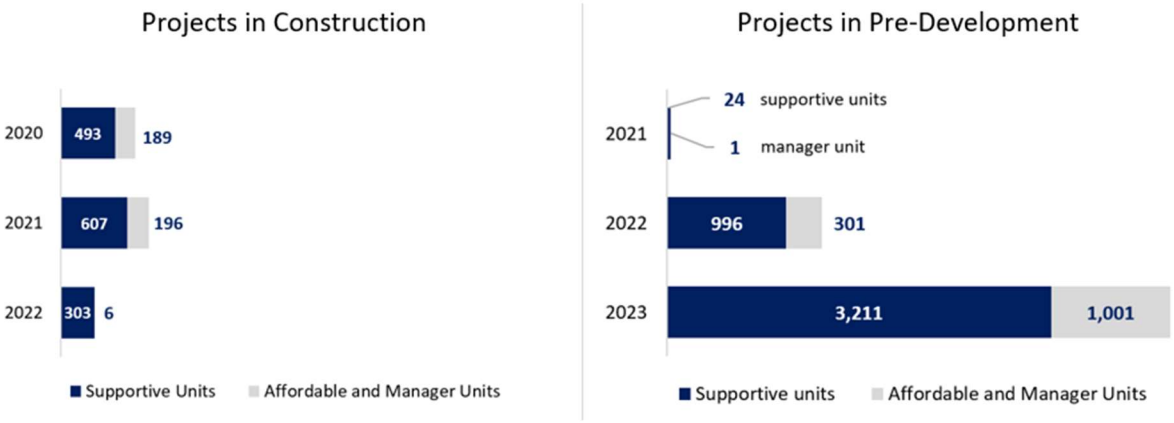
Using this approach, the two completed projects (88th and Vermont / Casa del Sol) took approximately **2.7** years to complete. But these projects – and seven others currently in construction – were already in HCIDLA's development pipeline before Proposition HHH was approved in November 2016. Whereas Proposition HHH funds are typically "first-in" and developers have two years to secure additional financing, HHH funds helped developers of the initial group of projects close a financing gap and move toward construction.

Proposition HHH program regulations require developers to have legal rights to a property (i.e., site control) before applying for funding. As a result, the estimated timeline calculations below may not fully reflect the amount of time it takes to complete a typical HHH-funded project.

28 Projects in construction			81 Projects in pre-development		
Years from funding to occupancy			**Years from funding to occupancy**		
Fastest	Average	Slowest	Fastest	Average	Slowest
2.4	**3.2**	**4.2**	**2.7**	**4.1**	**5.2**

Based on estimated dates currently reported by HCID – which may not fully reflect pandemic-related project funding and construction challenges – only 20 percent of total units in the HHH development pipeline will be available until 2022 (at the earliest). Less than half of the total units will be available by 2023.

Estimated dates of unit availability



Proposition HHH Concierge

The City received grant funding in 2019 from United Way of Greater Los Angeles to create and fund the Housing Crisis Response Team within the Mayor's Office of Citywide Homeless Initiatives. The grant also provided funding for the establishment of an Affordable Housing Production Manager (also referred to as the "HHH Concierge"). The primary goal of the HHH Concierge is to increase the speed at which HHH and affordable housing projects move through the development pipeline.[9]

The HHH Concierge has been collaborating with developers and City departments to streamline processes in accordance with established legal requirements and troubleshoot issues on a project-by-project basis. These efforts have led to the City's Department of Building Services (LADBS) establishing a dedicated case processing team focused exclusively on HHH/affordable housing projects.

The City has not yet finalized performance metrics to measure the extent which these efforts are speeding up individual permitting processes. They are in the process of establishing baselines for each permitting process and plans to launch quarterly reports and a public-facing dashboard.

IV. Interim Shelter and Facilities Development

The January 2020 point-in-time count found that approximately **29,000** – **or 70 percent** – of the City's overall homeless population was unsheltered. **This data was compiled before the onset**

[9] The Mayor issued Executive Directive #13 (ED13) in October 2015 to facilitate streamlined and prioritized case processing for all affordable housing developments. Although it was issued before Proposition HHH, the strategies outlined within ED13 apply to supportive housing developments.

of the pandemic and likely understates the actual number of unsheltered residents. Uncertainty about continued federal unemployment assistance for the duration of the pandemic and temporary renter protections mean that thousands of additional households are at risk of homelessness in the coming months.

<INSERT LAHSA HOUSING INVENTORY COUNT FOR OVERALL NUMBER OF SHELTER BEDS>. The list below identifies several ongoing and emerging – non-HHH – initiatives focused on adding interim shelter options and support facilities. It is important to consider these initiatives in order to place the City's efforts to develop shelters/facilities using HHH funds into broader context.

- **A Bridge Home (ABH) program** – Launched in 2018, the City's primary strategy for emergency housing solutions is through ABH. So far, **13** ABH projects have been completed (**933** beds). There are **12** projects in construction (**1,019** beds) and **six** projects pending operation or in pre-development (**234** beds). <CONFIRM>

- **Homeless, Housing, Assistance, and Prevent Program (HHAP)** – The City received a one-time grant of approximately **$117.6 million** from the State in June 2020. The funds have been committed across several categories including operating costs for ABH locations, ABH construction costs, rental assistance and rapid re-housing, and public health and hygiene.

- **Project Roomkey (PRK)** – PRK is a coordinated effort (State, County, LAHSA) to secure hotel/motel rooms as shelters for people experiencing homelessness who are highly susceptible to hospitalization or death should they contract COVID-19, to prevent the spread of the virus in communities and to protect the capacity of hospitals and the healthcare system. Many of the participants were previously in other shelters that needed to reduce bed counts due to social distancing requirements.

  The goal of PRK was to provide **15,000** rooms for this high-risk population. As of July 15, 2020, there are **3,920** rooms under contract. LAHSA cited several challenges to getting rooms filled, but the primary issue has been difficulty negotiating agreements with owners of these properties.

  The second phase of the State's plan is to acquire hotels/motels and transition Project Roomkey to Project Homekey. As currently outlined, the effort relies on approximately **$550 million** in emergency funding from the federal government and must be spent by the end of 2020 in addition to **$50 million** from the State's general fund.

- **LAHSA COVID-19 Recovery Plan** – LAHSA presented a three-year COVID-19 recovery plan to the Board of Supervisors to provide temporary housing with a goal of eventually finding permanent places to live for the **15,000** individuals from the PRK target population. The goal is to find housing solutions for the individuals who were placed in hotel/motel rooms, in addition to the **11,000**+ who were not placed.

  The proposal employs a combination of bridge housing, rental subsidies, and rehousing services. In addition, the proposed plan includes the possibility of initiating long-term leases on hotels/motels or outright purchases of these sites. The estimated cost of the overall effort is **$800 million** – **$600,000 million** of which is new funding.

- <INSERT DETAILS ABOUT POTENTIAL LEGAL SETTLEMENT TO SHELTER 6,000 HOMELESS ANGELENOS LIVING NEAR FREEWAYS>

These efforts are critical, but they are still not enough to provide rapid shelter options to our growing population of unsheltered residents.

Proposition HHH Shelter/Facilities Program

Proposition HHH authorized the City to use up to **$1.2 billion** in bond proceeds to develop supportive and affordable housing, as well as facilities such as shelters, showers, restrooms, storage, clinics, and navigation centers. **The ballot measure required at least 80 percent of HHH funds to be used on supportive housing and shelters/facilities, but it did not specify how to distribute funds across those categories.**

Although the supportive housing model (i.e., housing combined with services) is considered a best practice for addressing chronic homelessness, shelter beds and facilities fulfill a critical role in helping unsheltered individuals until housing becomes available. Decisions about how to balance these approaches depend on a range of factors such as available funding, existing housing and shelter inventories, project costs, public health conditions, the number of unsheltered residents and their service needs.

9 Projects in Pre-development

8 Projects in Construction

7 Completed Projects

The City decided to prioritize the development of supportive housing because the approach was consistent with the goals of the ballot measure and provided longer-term solutions for chronically homeless Angelenos. In early 2017, the Office of the Chief Administrative Officer (CAO) and HHH Citizens and Administrative Oversight Committees recommended that the City place a **$60 million** cap on shelter/facilities projects using Proposition

HHH funding. As a result, a relatively modest share of Proposition HHH funding (**$58 million or 5 percent**) has been allocated to **24** shelter/facilities projects.[10]

Eligible projects included rehabilitation/expansion of existing sites or acquisition/construction of new sites. In addition, projects that enhanced existing facilities to improve service delivery – such as retrofits to make buildings compliant with the Americans with Disabilities Act (ADA) – were also eligible. The shelter/facilities projects that were funded by the City fall into two broad categories based on the entity that proposed (i.e., sponsored) them, HHH award process, and funding model.

- **Non-City-sponsored projects** – The City solicited proposals from non-profit or private entities for shelters/facilities projects in two phases: (1) an expedited request for proposals (RFP) in February 2017 seeking shovel-ready projects ready to begin construction within a year; and (2) a conventional RFP in August 2017. Applicants needed to meet a series of criteria to be considered, including whether they had funding in place to operate the proposed shelter/facility.

  Funding for non-City sponsored projects was made available as loans repayable through service repayment with a term corresponding to the useful life of the project. The initial RFP did not establish a minimum or maximum funding amount, but the second RFP set thresholds at **$100,000** and **$3.5 million**, respectively. In total, the City funded **20** non-City sponsored projects with approximately **$33 million** in HHH funds. Most of these projects involve rehabilitation of existing facilities rather than new construction.

- **City-sponsored projects** – The City also funded projects through processes outlined in its matrix for re-purposing City-owned properties (i.e., the Asset Evaluation Framework). To initiate this process, Councilmembers identified specific City-owned properties they sought to re-purpose and requested that the CAO, Office of the Chief Legislative Office (CLA), Board of Public Works Bureau of Engineering (BOE), and LAHSA evaluate the construction costs and service funding needed to establish the proposed shelter/facility.

  Unlike the non-City-sponsored projects described above, the minimum/maximum funding thresholds did not apply and the projects did not include e. In total, the City funded **four** City-sponsored projects with approximately **$24 million** in HHH funds. All of these projects are on City-owned property and three of them involve new construction.

[10] Two additional projects received funding commitments but did not proceed due to unanticipated costs. Another project did not move forward because the developer ran into issues converting single room occupancy (SRO) units to transitional housing.

The table below provides an overview about the types of facilities funded with Proposition HHH funds. It is important to note many of these facilities have multiple functions. For purposes of this summary, we primarily used the same primary categories listed by the City.

Shelter/ facility type	# of projects funded	HHH funding	Total Cost	Project Notes
Domestic violence (DV) shelters	6	**$3,891,388**	**$6,100,158**	Five of the projects are primarily site rehabilitations that will allow service providers to enhance services, improve accessibility and safety, and add/continue operating shelter beds. One project included acquiring a 4-unit building and converting it into a 36-bed shelter.
Service centers	5	**$15,648,535**	**$19,913,861**	Three projects are structural enhancements to existing facilities that will provide additional capacity to serve homeless individuals and families. Two projects are new construction that will provide storage, showers, restrooms, and space for case management, counseling, and other services.
Transitional housing/shelters	4	**$7,114,439**	**$7,214,439**	The projects are primarily site rehabilitations that will make existing facilities safer, more welcoming, and more accessible. Multiple projects will add rooms and shelter beds as a direct result of the HHH-funded site reconfigurations.
Health clinics	2	**$7,200,000**	**$26,738,840**	One clinic is being built in conjunction with Permanent Supportive Housing project and seeks to provide medical, dental, mental, and substance abuse services, to serve at least 2,200 additional individuals each year. The second project involves addition of facilities enhancements such as exam rooms, showers, and restrooms.
Navigation centers	2	**$11,836,414**	**$11,836,414**	Both facilities provide a combination of storage, hygiene facilities, and case management space.
General shelters	2	**$5,242,000**	**$5,844,380**	Both projects will create additional space for shelter beds and program space. One of the projects includes significant reconfiguration of existing space

Multi-function facilities	2	**$3,272,500**	**$3,272,500**	The projects include a series of upgrades at existing facilities. Specific renovations include additional program space, hygiene facilities, an additional bedroom for emergency supportive housing, and renovations to increase accessibility.
Bridge housing	1	**$3,498,698**	**$3,498,698**	Provides 30 new beds of temporary/interim housing at a vacant former City library for homeless women who have been matched to permanent housing.

The total number of shelter beds added through these projects is <INSERT NUMBER>. Finding locations for development of shelters/facilities is inherently difficult because they are often met with opposition from neighborhood residents and businesses. Most of the projects (18 of 24) funded by the City are renovations of shelters/facilities already embedded in their respective communities.

In both categories described above (non-City and City), Councilmembers played a central role in determining which projects moved forward. Applicants responding to the second RFP were required to submit a letter of acknowledgment from the Council District where the project would be located. <INSERT WHAT HAPPENED BTW RFP1/RFP2 and PROVIDE BREAKDOWN OF 23 PROPOSALS TO RFP2>. City-sponsored projects were not initiated unless Councilmembers introduced a motion requesting an evaluation of a potential project on City-owned property.

The extent to which these issues – or others such as maximum funding thresholds on individual projects and the overall funding limit on the program – contributed to the number and types of projects is unclear. Feedback from eligible non-City project sponsors would provide valuable insight about any barriers they faced in obtaining funding. Future efforts to build shelters/facilities using any source of funds will need to consider these perspectives and whether a different project solicitation model would be more effective.

CONCLUSION AND RECOMMENDATIONS

The growing magnitude of these overlapping crises – homelessness and economic devastation caused by COVID-19 – should compel the City to reassess strategic decisions that have been made about Proposition HHH funds. **Developing supportive housing should remain the preferred long-term strategy to help chronically homeless individuals, but that needs to be tempered with the reality that tens of thousands of unsheltered Angelenos also desperately need short-term assistance like shelter beds, showers, restrooms, and storage facilities**.

Last year, three homeless individuals died each day in Los Angeles County – these daily tragedies are likely to increase in 2020 given the growing number of unsheltered residents and the elevated health risks associated with COVID-19. T**he City should consider alternate strategies – using Proposition HHH funds – within the context of larger ongoing initiatives.**

The primary recommendation in our previous report called on the City to consider reallocating previously-committed HHH funds from expensive or stalled projects to projects with lower cost projects or development of shelters and facilities to provide a stopgap for residents <XYZ>. These are inherently difficult decisions – but the full scale of results since Proposition HHH was passed in November 2016 needs to be considered before electing to stay the course.

- Only two projects have been completed (**106** units) nearly four years after voters approved Proposition HHH. Approximately **75 percent** of total units are still in pre-development and have not yet begun construction.
- Based on current projections – which may not fully reflect pandemic-related delays – only **20 percent** of total units in the HHH development pipeline will be available by 2022 (at the earliest). Less than half will be available until 2023.
- More than **25 percent** of units in construction exceed **$600,000** per unit. Projects in pre-development show similar estimated costs, and will be subject to market forces when developers solicit bids for put construction contracts.
- Although the City has committed approximately **$1.17 billion** of Proposition HHH funds, approximately **$268 million** <INSERT UPDATED $> in loans have been formally issued, and **$140 million** has been spent.

On average, each project in the HHH development pipeline received **$9 million** in funding. Although no projects have been cancelled as a direct result of the pandemic, several projects are experiencing increased levels of uncertainty due to funding issues. <INSERT AMOUNT OF REMAINING HHH FUNDS>. HCIDLA plans use the remaining HHH funds and funds from any unsuccessful projects to solicit proposals for new supportive housing projects – **which would take several years to complete.** Instead, the City should allocate any remaining or returned HHH funding to projects that are more responsive to the current crises.

- **Focus on shelters and facilities** – These types of projects are inherently stopgap measures that do not end the cycle of homelessness. Future investments would still be needed to expand the overall supply of supportive housing, but shelters are critical to helping get vulnerable people off the streets in the short-term. Accessible facilities are also essential to helping people living on the streets meet their basic health, hygiene,

sanitation, and storage needs. In addition, these types of projects are typically less expensive and require less time to develop. <QUANTIFY>.

State law prevents <CONFIRM> the City from using Proposition HHH bond proceeds on things like equipment, tents or other non-permanent structures, or mobile hygiene facilities. But the City has full authority to fully fund the construction of shelters and facilities on City-owned property, or acquire property and initiate projects.

- **Prioritize adaptive reuse opportunities –** An alternate approach would be to pursue strategies that minimize the impact of issues that drive up project costs and extend development timelines, such as land use challenges, high construction costs, and systemic issues related to project financing. Different approaches – such as acquisition or adaptive reuse of existing buildings using Proposition HHH funds – may help reduce costs and timelines.

  Efforts by the State and County (via LAHSA) to acquire hotels/motels that can be converted into interim shelters or supportive housing are a promising development. CalMatters obtained data from the California Hotel & Lodging Association that showed smaller hotel/motel properties in Los Angeles County may cost approximately **$100,000** per unit to acquire, but would likely require additional time and money before they could be converted into supportive housing.[11]

  The City has explored the purchase or long-term leases of hotel/motel properties but encountered regulatory hurdles due to the need for zoning changes and a lack of interest from small business owners. However, those efforts mainly took place before the onset of the pandemic – the State and County may encounter a vastly different marketplace for these opportunities. **A potential option for the City would be to contribute available Proposition HHH funding to assist with these efforts.**

  The pandemic has also raised larger questions about the future of commercial space such as office space and big-box retail stores. Although it is too early to determine whether any downward market trends – and the costs associated with potential renovations – make these projects financially viable, the City should work with subject matter experts to identify opportunities.

[11] <INSERT CALMATTERS REFERENCE>

Shifting course through these strategies may increase the City's ability to deliver supportive housing, interim shelter, and facilities at a lower cost and faster rate. More broadly, it would help re-align a generational voter investment with our emerging and urgent needs.